

BEAVER ISLAND TRANSPORTATION AUTHORITY
CHARLEVOIX COUNTY, MICHIGAN

REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Beaver Island Transportation Authority	County Charlevoix
Audit Date 9/30/05	Opinion Date 11/14/05	Date Accountant Report Submitted to State: 1/17/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC			
Street Address 1107 E. Eighth Street	City Traverse City	State MI	ZIP 49686
Accountant Signature		Date 1/17/06	

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INDEPENDENT AUDITORS' REPORT

Members of the Authority's Board
Beaver Island Transportation Authority
Beaver Island, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Beaver Island Transportation Authority, Michigan (a component unit of St. James Township), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Beaver Island Transportation Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Beaver Island Transportation Authority, Charlevoix County, Michigan, as of September 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America and the respective budgetary comparison for the Special Revenue Fund.

Beaver Island Transportation Authority
Independent Auditors' Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated November 14, 2005, on my consideration of Beaver Island Transportation Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Beaver Island Transportation Authority has not presented a management discussion and analysis that the Government Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming an opinion on the financial statements of the Beaver Island Transportation Authority, Michigan's basic financial statements. The accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the part of the basic financial statements of Beaver Island Transportation Authority, Michigan. The schedule of state financial assistance has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bary E. Laidt, CPA

November 14, 2005

Basic Financial Statements

Beaver Island Transportation Authority
Statement of Net Assets
September 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 17,833
Accounts receivable	13,791
Due from the State	48,990
Boat study	13,846
Capital assets (net of accumulated depreciation):	
Parking lot	91,852
Buildings and improvements	589,980
Machinery and equipment	137,715
Ferry and improvements	3,705,862
Dock	926,712
Vehicles	92,757
Miscellaneous capital outlays	<u>374,462</u>
Total assets	<u><u>\$ 6,013,800</u></u>
LIABILITIES	
Accounts payable	\$ 15,231
Payroll liabilities	<u>2,136</u>
Total liabilities	<u>17,367</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,919,340
Unrestricted	<u>77,093</u>
Total net assets	<u><u>\$ 5,996,433</u></u>

See notes to financial statements

Beaver Island Transportation Authority
Statement of Activities
For the Year Ended September 30, 2005

Programs	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Fees, Charges for Services</u>	<u>Operating Grants and Contrib.'s</u>	<u>Capital Grants and Contrib.'s</u>
Public Works	\$281,917	\$307,016	\$ 34,714	\$
Other:				
Depreciation	<u>337,442</u>	<u> </u>	<u> </u>	<u>506,909</u>
Total governmental activities	<u>\$619,359</u>	<u>\$307,016</u>	<u>\$ 34,714</u>	<u>\$ 506,909</u>

General revenues:
Interest earnings
Reimbursements

Total general revenues

Change in net assets

Prior period adjustment

Net assets - beginning

Net assets - ending

See notes to financial statements

Net (Expenses)
Revenues and
Changes in
Net Assets

Governmental
Activities

\$ 59,813

169,467

229,280

178

158

336

229,616

(2,693)

5,769,510

\$5,996,433

Beaver Island Transportation Authority
Balance Sheet
Governmental Funds
September 30, 2005

	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 17,833	\$ 17,833
Accounts receivable	13,791	13,791
Due from the State	48,990	48,990
Other assets-boat study	<u>13,846</u>	<u>13,846</u>
Total Assets	<u>\$ 94,460</u>	<u>\$ 94,460</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 15,231	\$ 15,231
Payroll liabilities	<u>2,136</u>	<u>2,136</u>
Total liabilities	<u>17,367</u>	<u>17,367</u>
Fund balances:		
Unreserved:		
Undesignated	<u>77,093</u>	<u>77,093</u>
Total fund balances	<u>77,093</u>	<u>77,093</u>
Total liabilities and fund balances	<u>\$ 94,460</u>	<u>\$ 94,460</u>

See notes to financial statements

Beaver Island Transportation Authority
Reconciliation of the Governmental Funds
Balance Sheet
With the Statement of Net Assets
September 30, 2005

Amounts reported for governmental activities in the
statement of net assets are different because:

Total Fund Balance - Governmental Funds	\$ 77,093
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Capital assets used in governmental activities
are not financial resources and therefore are
not reported as assets in governmental funds:

Cost of capital assets	6,574,867
Accumulated depreciation	<u>(655,527)</u>

Total Net Assets - Governmental Activities	<u>\$ 5,996,433</u>
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See notes to financial statements

Beaver Island Transportation Authority
Statement of Revenues, Expenditures, and Changes
In Fund Balance
Governmental Funds
For the Year Ended September 30, 2005

	Special Revenue Fund	Total Governmental Funds
REVENUES		
State grants:		
- capital	\$ 506,909	\$ 506,909
- operating assistance	34,714	34,714
Local sources	307,016	307,016
Interest and dividends	178	178
Reimbursements	<u>158</u>	<u>158</u>
Total revenues	<u>848,975</u>	<u>848,975</u>
EXPENDITURES		
Public works:		
Fuel-boat	209,770	209,770
Director's salary	31,059	31,059
Liability insurance	8,328	8,328
Health insurance	4,875	4,875
Consulting	4,832	4,832
Utilities	3,795	3,795
Office supplies	3,620	3,620
Repairs & maintenance	3,179	3,179
Payroll taxes	2,401	2,401
Audit	2,343	2,343
Telephone	1,801	1,801
Accounting	1,499	1,499
Cleaning	1,191	1,191
Advertising	1,035	1,035
Other	<u>2,189</u>	<u>2,189</u>
Total public works	281,917	281,917
Capital outlay	<u>504,338</u>	<u>504,338</u>
Total expenditures	<u>786,255</u>	<u>786,255</u>
Net changes in fund balance	62,720	62,720
Prior period adjustment	(2,693)	(2,693)
Fund balance-beginning	<u>17,066</u>	<u>17,066</u>
Fund balance-ending	<u>\$ 77,093</u>	<u>\$ 77,093</u>

See notes to financial statements

Beaver Island Transportation Authority
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2005

Amounts reported for governmental activities in the
statement of activities are different because:

Total net change in fund balances - governmental funds	\$ 62,720
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Capital outlays to purchase capital assets
and books are recorded in governmental
funds as expenditures. However, for
governmental activities those costs are
shown in the statement of net assets and
are depreciated over their estimated
useful lives as annual depreciation in
the statement of activities.

This amount by which capital outlays
exceeded depreciation in the period.

Capital outlays	\$ 504,338	
Depreciation expense	(337,442)	<u>166,896</u>

Change in net assets of governmental activities	<u>\$ 229,616</u>
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See notes to financial statements

Beaver Island Transportation Authority
Special Revenue Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended September 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
State grants;				
- capital	\$506,909	\$ 506,909	\$506,909	\$
- operating				
assistance	30,500	171,000	34,714	(136,286)
Local sources	30,450	171,000	307,016	136,016
Interest and				
dividends	60	500	178	(322)
Reimbursements			158	158
Total revenues	<u>567,909</u>	<u>849,409</u>	<u>848,975</u>	<u>(434)</u>
EXPENDITURES				
Public works:				
Fuel-boat		280,000	209,770	70,230
Director's salary	37,440	37,440	31,059	6,381
Liability insurance	7,800	7,800	8,328	(528)
Health insurance	4,200	4,200	4,875	(675)
Consulting			4,832	(4,832)
Utilities	3,735	3,735	3,795	(60)
Office supplies			3,620	(3,620)
Repairs & maintenance	1,500	1,500	3,179	(1,679)
Payroll taxes	2,865	2,865	2,401	464
Audit	1,500	2,500	2,343	157
Telephone			1,801	(1,801)
Accounting			1,499	(1,499)
Cleaning			1,191	(1,191)
Advertising	450	450	1,035	(585)
Other	<u>1,510</u>	<u>1,510</u>	<u>2,189</u>	<u>(679)</u>
Total public				
works	61,000	342,000	281,917	60,083
Capital outlay	<u>506,909</u>	<u>506,909</u>	<u>504,338</u>	<u>2,571</u>
Total				
expenditures	<u>567,909</u>	<u>848,909</u>	<u>786,255</u>	<u>62,654</u>
Net change in fund				
balance		500	62,720	62,220
Prior period adjust.			(2,693)	(2,693)
Fund balance-beginning			17,066	17,066
Fund balance-ending	<u>\$</u>	<u>\$ 500</u>	<u>\$ 77,093</u>	<u>\$ 76,593</u>

See notes to financial statements

Beaver Island Transportation Authority
Notes to the Financial Statements
September 30, 2005

I: Summary of significant accounting policies

The financial statements of the Beaver Island Transportation Authority (the Authority) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Authority was created under the Public Transportation Authority Act No. 196 of the P.A. of 1986 as amended, on January 6, 1993. The incorporating political subdivision is St. James Township.

The purpose of the Authority is to plan, promote, purchase, acquire, establish, own, operate, or cause to be operated, maintain, improve, enlarge, and modernize a mass transit system in the greater Beaver Island area.

The Authority Board is comprised of five (5) members appointed by the governing bodies of the political subdivisions participating in the Authority. Representation on the Board is proportional to the population of the respective political subdivisions.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported

instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Authority has no responsibility for any fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

The Authority reports the following major governmental funds:

The *special revenue fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Authority and are recognized as revenue at that time.

D. Assets, Liabilities and Net Assets

1. Cash and investments

Cash includes amounts in demand deposits.

State statutes authorize the Authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

The Authority Board has designated one bank for the deposit of Authority funds.

2. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded as historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment of the Authority is depreciated using the straight-line method over the following estimated useful lives:

Parking lot	10 years
Building and improvements	40 years
Machinery and equipment	7 years
Ferry	30 years
Ferry improvements	10 years

Dock	15 years
Vehicles	5 years
Miscellaneous capital outlays	10 years

3. Compensated Absences

The Authority does not have a compensated absence policy.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

The Authority does not have any long-term obligations.

5. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spending resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year

end.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Management submits to the Authority Board a proposed budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - GAAP basis - general funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally adopted by the Authority Board as a resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. Management is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Authority Board.
5. Formal budgetary integration is employed as a management control device during the year for the special revenue fund.
6. The budget as presented, has not been amended.

B. Excess of Expenditures over Appropriations

During the year ended September 30, 2005, the Authority has not incurred expenditures in certain budgetary funds which were in excess of amounts appropriated.

NOTE 3: DEPOSITS, INVESTMENTS AND CREDIT RISK

Cash and cash equivalents are held separately in the name of the Authority.

Deposits

At year-end, the carrying amount of the Authority's deposits were \$17,833 and the bank balance was \$40,587, of which \$40,587 was covered by federal depository insurance.

Investments

The Authority does not have any investments.

NOTE 4: DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS

Capital asset balances and activity for the year ended September 30, 2005 were as follows:

	<u>Beginning Balance</u>	<u>Increases (Decreases)</u>	<u>Ending Balance</u>
Governmental Activities:			
Capital assets being depreciated:			
Parking lot	\$ 114,814	\$	\$ 114,814
Buildings & improvements	265,143	346,810	611,953
Machinery & equipment	132,328	47,406	179,734
Ferry	3,776,941		3,776,941
Ferry improvements	117,095	91,623	208,718
Dock	1,069,284		1,069,284
Vehicles	126,845	18,500	145,345
Miscellaneous capital outlays	<u>468,078</u>		<u>468,078</u>
Subtotal	<u>6,070,528</u>	<u>504,339</u>	<u>6,574,867</u>
Less accumulated depreciation for:			
Parking lot	(11,481)	(11,481)	(22,962)
Buildings & improvements	(6,629)	(15,344)	(21,973)
Machinery & equipment	(18,904)	(23,115)	(42,019)
Ferry	(125,898)	(125,898)	(251,796)
Ferry improvements	(11,710)	(16,291)	(28,001)
Dock	(71,286)	(71,286)	(142,572)
Vehicles	(25,369)	(27,219)	(52,588)
Miscellaneous capital outlays	<u>(46,808)</u>	<u>(46,808)</u>	<u>(93,616)</u>
Subtotal	<u>(318,085)</u>	<u>(337,442)</u>	<u>(655,527)</u>
Net capital assets being depreciated	<u>5,752,443</u>	<u>166,897</u>	<u>5,919,340</u>

Governmental
activities capital
assets-net of
depreciation

\$ 5,752,443 \$ 166,897 \$ 5,919,340

NOTE 5: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Authority has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Independent Contractor(Beaver Island Boat Company) that operates the ferry vessel shall provide workers' compensation insurance coverage for personnel used in the operation of the ferry vessel and maritime insurance coverage for personnel used by the Independent Contractor in the operation of the ferry vessel.

The Independent Contractor shall be responsible for insuring the vessel provided by the Authority under the terms of this Agreement and shall provide for protection and indemnity insurance coverage, excess liability coverage, and hull and machinery coverage. Said coverage shall be paid for and provided by the Independent Contractor with the Authority named as second insured.

NOTE 6: PENSION PLAN

The Authority does not provide a pension plan for its employees.

NOTE 7: MANAGEMENT/OPERATING AGREEMENT

The operation of a ferry between Beaver Island and Charlevoix is necessary for the public welfare, good and convenience of the citizens of Beaver Island. The Authority has the power to provide a system of transportation for its citizens and is authorized to subcontract the management and operation of a ferry service to a third party.

The Beaver Island Transportation Authority (BITA) agreed to a management services agreement with the Beaver Island Boat Company (BIBCo), dated May 29, 2003.

The term of this Agreement shall be thirty (30) years, commencing December 21, 1993.

NOTE 8: PRIOR PERIOD ADJUSTMENT

The prior period fund balance had to be reduced by \$2,693.44 for a deposit in transit as of September 30, 2004. Monies were returned to Dell for a computer on November 9, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

Beaver Island Transportation Authority
Schedule of State Financial Assistance
Year Ended September 30, 2005

<u>State Grantor/Pass-Through Grantor Program Title</u>	<u>State Contract Number</u>	<u>Award Expenditures</u>
<u>Michigan Department of Transportation</u>		
Capital Grants - Capital Project	2004-0056	\$185,592
Capital Grants - Capital Project	2001-0867	13,846
Capital Grants - Capital Project	2002-0630	145,666
Capital Grants - Capital Project	2003-0139	153,521
Capital Grants - Capital Project	2005-0023	8,284
Operating assistance		<u>34,714</u>
		<u>\$541,623</u>

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**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

Members of the Authority's Board
Beaver Island Transportation Authority
Beaver Island, Michigan

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Beaver Island Transportation Authority, Michigan (a component unit of St. James Township), as of and for the year ended September 30, 2005, which collectively comprise the Beaver Island Transportation Authority, Michigan's basic financial statements and have issued my report thereon dated November 14, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Beaver Island Transportation Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.
Beaver Island Transportation Authority

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Beaver Island Transportation Authority, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of Beaver Island Transportation Authority, Michigan, on page 20 of this report dated November 14, 2005.

This report is intended for the information of the audit committee, management, the Authority Board, and the Michigan Department of Transportation(MDOT) and is not intended to be and should not be used by anyone other than these specified parties.

Samy S. Audeh, CPA, PC

November 14, 2005

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Members of the Board
Beaver Island Transportation Authority
Beaver Island, Michigan

My examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

The following comment and recommendation is based on observations made during the course of my examination for the year ended September 30, 2005:

Credit Card Policy

The Transportation Authority has a credit card, but there is no credit card policy.

I recommend that the Transportation Authority Board adopt a credit card policy as required by P.A. 266 of 1995 (MCL 129.241).

On November 29, 2005 a credit card policy was adopted.

Barry E. Gaudette, CPA, P.C.

November 14, 2005